

OPR 03-03 MUNICIPALLY OWNED GOLF COURSES

MARCH 2003

Summary

The City of Chattanooga owns or co-owns three municipal golf courses that have generated net revenue to the City totaling \$299,092 over the last four fiscal years. While the Moccasin Bend Golf Course – co-owned with the County and privately operated – has generated \$208,458 in lease payments, the two municipally operated courses have generated just \$90,634 in net revenue. In FY 2002, the municipally operated courses actually lost a total of \$68,685. Privatization of the municipally operated courses could yield a minimum of an additional \$100,000 to the City in net revenue annually.

Scope and Objectives

The audit's scope was to review financial and operational data of the Brainerd, Brown Acres and Moccasin Bend Golf Courses for a four year period.

The objectives of the audit are:

1. To compare operations of the Brainerd, Brown Acres, and Moccasin Bend golf courses; and
2. To evaluate the benefits of privatizing the ownership or operation of the municipally owned and operated golf courses.

Background

In 1924, the City was given the land for the Brainerd Golf Course. The course was completed in 1926 and has been operated by the City for the last 76 years.

In 1965, the City and Hamilton County entered into a lease agreement with the Moccasin Bend Golf Club (MBGC) to operate the Moccasin Bend Golf Course. Amended on January 1, 1989, the lease requires MBGC to pay a total monthly payment of 11.5 percent of gross receipts to the City and County. The lease now terminates on October 31, 2005. Over the last 37 years, MBGC has invested approximately \$2 million in capital improvements.

In 1991, the City acquired the Brown Acres Golf Course. After the clubhouse was destroyed by fire in October 1998, the City built a new clubhouse that was completed in September 2000.

Methodology

The audit's findings and recommendations are based on an analysis of financial records and tax returns from MBGC, the City's accounting records for Brown Acres and Brainerd golf courses for the last four years, income statements for all three courses, data compiled by all three golf courses on rounds played and fees charged. Auditors interviewed management staff from the City of Chattanooga and MBGC, reviewed literature on privatization of golf courses in other states and cities and interviewed officials from courses and cities that have privatized their operations.

Findings

Net revenues at Moccasin Bend are significantly higher than at the City operated golf courses.

To compare relative profitability, the auditors looked at net revenue for all three golf courses. Because the City does not pay rent to itself and does not show depreciation cost, rent and depreciation were deducted from MBGC's reported expenses. During the last four years, MBGC's financial records showed that it made a "profit" totaling \$1,457,807.27. In contrast, net revenue from the city operated courses for the last four fiscal years was just \$90,634.69; in fact, the two city-operated courses had a combined deficit of \$68,685.92 in FY 2002.¹

Salary and benefit costs are significantly higher at City operated courses.

Benefits and salary costs are the principal difference in operating expenditures between the city operated courses and Moccasin Bend. The average salary/benefit cost per round for the last year at Brainerd is \$13.20 and at Brown Acres is \$16.84 – compared to an average salary/benefit cost at Moccasin Bend of \$8.79.

Moccasin Bend relies largely on a workforce of part-time employees, resulting in lower salary costs and significantly lower benefit costs. Part-time employment allows Moccasin Bend to vary staffing based on seasonal, weekly and even daily differences in utilization. Of a total of 30 employees in 2001, only five MBGC employees were full-time and only four received benefits. At Brainerd and Brown Acres, there are 26 employees – but 22 are full time. The result is that MBGC's annual salary cost – based on CY 2001 data -- was \$289,357 compared to total annual salary costs (including overtime/benefits) – based on FY 2002 data -- of \$470,841 at Brainerd and \$459,620 at Brown Acres. Included in total salaries for the City are two individuals – the Golf Course Director and an accounting clerk – with annual salaries totaling \$84,739. MBGC does not have an accountant on staff, instead contracting for accounting services.

¹ Precise comparison is made difficult because MBGC reports its finances on a calendar year basis, while the City reports on a fiscal year.

Over the last four years, Moccasin Bend's revenues were higher than the City operated courses in all categories.

During comparable four year periods, total revenue at Brown Acres was 8.4% lower than at Moccasin Bend and total revenue at Brainerd was 10% lower than at Moccasin Bend.

Description	Brainerd FY 99 - 02	Brown Acres FY 99 - 02	MBGC CY 98 - 01
Total Golf Course Revenue	\$ 3,040,043.24	\$ 3,028,471.40	\$ 3,091,697.91
Total Pro-Shop Revenue	\$ 272,032.80	\$ 273,440.75	\$ 485,570.81
Total Concession Revenue	\$ 359,533.44	\$ 435,451.16	\$ 502,860.99
TOTAL REVENUE	\$ 3,671,609.48	\$ 3,737,363.31	\$ 4,080,129.71

A number of factors affect Moccasin Bend's ability to generate more revenue than either Brainerd or Brown Acres:

- Pro Shop revenue at Moccasin Bend is significantly higher than at either of the City operated courses. In fact, the difference in Pro Shop revenue accounts for 61.9% of the difference in total revenue between Brown Acres and Moccasin Bend. In part, this is driven by the fact that Moccasin Bend -- located just five minutes from Downtown -- has a driving range. Driving range revenue accounts for a full 6% of total revenue at Moccasin Bend.
- Mark up on concessions is significantly higher at Moccasin Bend. Moccasin Bend's concession profit margin is a consistent 50% while the City's ranges from 32% to 44% for the last four years. Difference in concession sales accounts for 35% of the overall difference in revenue between Moccasin Bend and Brainerd.

Year	City Courses			Moccasin Bend		
	Sales	Cost of Sale	Profit %	Sales	Cost of Sale	Profit %
2002	\$190,765.46	\$129,628.47	32	\$117,693.30	\$59,459.61	49
2001	\$193,270.64	\$108,419.62	44	\$125,651.28	\$63,509.01	49
2000	\$198,652.10	\$113,332.83	43	\$127,323.81	\$63,139.21	50
1999	\$212,296.40	\$124,801.42	41	\$132,192.60	\$66,167.21	50

The City's course membership program also has the effect of reducing revenue. The City has a membership program which charges players a one time fee of \$605 to \$1045 depending on which program is chosen. Once the fee is paid, then members can play for the entire year with no greens fee charge: a cart rental fee is collected if they want to ride a cart. Brainerd collects \$45,362.58 and Brown Acres \$36,450.91 a year in memberships. Members play in FY02 accounted for 35% of the total play at Brainerd and 14% of total play at Brown Acres. In the absence of the membership program – and assuming that the lack of a discount would not have had an impact on the amount of play – City would have collected an additional \$105,852 in fees at Brainerd and \$20,845 at Brown Acres as computed below. By comparison, Moccasin Bend Golf Course has a "Frequent Golfer Discount" – characterized as dues and fees in its Financial Statement -- with an annual fee ranging from \$383.50 to \$484 per year plus a daily charge of \$7.00 on weekdays and \$8.00 on weekends. Only 10% of rounds at MBGC are covered by the discount program.

Description	Brainerd	Brown Acres
Member Dues FY Ending June 30, 2002	\$ 45,362.58	\$ 36,450.91
No. of Member's Rounds Played - July 2001 to June 2002	9,293.5	3,384.0
Average Amount Paid Per Round for Members	\$ 4.88	\$ 10.77
Greens Fees FY Ending June 30, 2002	\$ 431,543.76	\$ 404,756.01
No. of Paid Rounds – July 2001 to June 2002	26,517.5	23,914.5
Average Amount Paid Per Round for Nonmembers	\$ 16.27	\$ 16.93
Average Amount Per Round Saved By Member	\$ 11.39	\$ 6.16
Total Amount Of Revenue Lost For Member Rounds Played	\$ 105,852.97	\$ 20,845.44

The difference in revenue is not explained by a difference in fees. The fees charged by all three courses are comparable. For example, while the senior rate at Brainerd and Brown Acres for weekdays is \$7 lower than MBGC, the weekend rate is \$4 higher than MBGC. The rates² include the cart rental fee which is \$12 for the City and \$10 for MBGC and half price each for nine holes.

	City Courses		Moccasin Bend	
	Weekday	Weekend	Weekday	Weekend
9 Holes	\$16.00	\$18.00	\$20.50	\$20.50
18 Holes	\$29.00	\$34.00	\$28.00	\$30.00
Senior/Junior	\$23.00	\$34.00	\$24.00	\$30.00
High School	\$17.00	\$34.00		\$24.00

² The rates shown are costs for regular rounds played. The golf courses have discounted winter rates and some special rates during the year that may be lower than the rates shown on the table.

Privatizing the operation of Brainerd and Brown Acres Golf Courses could yield an additional \$100,000 a year in revenue to the City.

By contracting out the operation of Moccasin Bend more than 35 years ago, Chattanooga was a leader in a growing trend – the privatization of municipally owned golf courses. Between 1987 and 1995, the number of cities contracting for golf course services increased by 67% so that approximately one-quarter of all U.S. municipalities now do so. Privatization can result in cost savings, increased revenues and quality, risk minimization and more community outreach offered by the management companies.

As part of this audit, the auditors contacted other jurisdictions where municipal golf courses have been privatized. Both the City of Chicago Parks District and Forest Preserve District of Cook County, Illinois have privatized the management of their golf courses. After losing \$500,000 in 1992, Chicago privatized their six golf courses, two junior learning centers, and two miniature courses. The Parks District has a lease with Kemper Management Company which pays a flat monthly fee plus a percentage of revenue. The City still owns the land and buildings, but all equipment was included as part of the lease. In the first year of operation, Kemper paid the City \$500,000.

In 2002, Forest Preserve District of Cook County entered into a management contract for ten golf courses and two driving ranges. Under the agreement, Billy Casper Golf Management is responsible for all operations of the course. The Forest District receives a base annual fee of \$350,000 and a percentage of gross revenues. They also received a fee of \$400,000 marked for capital improvements. This money is deposited in an account for capital improvements that are approved by the Forest District. Under the ten year lease, the management company must meet certain revenue goals and maintenance is monitored by the Superintendent of Recreation. The lease includes equipment and buildings.

New York City operates 13 golf courses as concessions. For example, in 1987, the City's Parks Department entered into a ten year license – subsequently renewed for two five year periods – with American Golf Corporation for the Silver Lake Golf Course. Under the agreement, American Golf pays the City the greater of a minimum annual fee of \$125,000 or 15% of greens fees and cart rentals, 10% of food and beverage sales, 5% of Pro Shop sales and 15% of miscellaneous income. The agreement also required American Golf to invest \$425,000 in specified capital improvements. During a four and a half year period, Silver Lake had gross receipts of \$7,054,854 and paid the City \$918,265 – slightly more than 13% of gross receipts.

Auditors also identified three courses that were owned and maintained by the city, but contracted with a management company to provide clubhouse personnel and do payroll functions -- Cypress Head Golf Course in Port Orange, Florida, Olympia Hills Golf Course in Universal City, Texas and Joe Bartholomew and Brektell Memorial Golf Courses in New Orleans, Louisiana. City employees remain responsible for all the maintenance and expenses of the courses but they retain all revenues. All of these courses have operated in this fashion since their inception.

The auditors also examined the case of Tucson, Arizona, where in 1999 the City decided to take over operations and cease outside management of its municipal courses. Instead, it adopted a personnel structure that relied on part time employees. For each golf course, the City employs only 5 full time employees for all operations and 30-40 temporary, part time or seasonal employees. The golf director monitors weekly the operational revenue and expenses of each golf course to make sure they are not operating at a loss. For the last three years, all five golf courses have realized profits instead of losses.

To project possible benefits of privatized operation, one can assume that revenue at Brainerd and Brown Acres would have remained the same – a total of \$1.433 million in FY 2002 – and the City would have received the same 11.5% of gross revenue that the City and County receive pursuant to the MBGC lease. Instead of a loss of \$68,685.92, the City would have received approximately \$165,000 in lease payments. Under more favorable lease terms, such as the Silver Lake/American Golf lease in New York, the City would have received approximately \$186,000 for the two courses. Thus, the projected net benefit of privatized vs. City operation would have been just over \$250,000.

Recommendations

1. The City should actively consider privatization of City operated golf courses.

Parks Recreation Arts and Culture should develop a request for expression of interest (RFEI) for the privatized management or operation of both Brainerd and Brown Acres Golf Courses. Respondents should be asked for proposals that result in (a) privatization of all operations of the golf course, with a set license or lease payment to the City; (b) a management contract whereby the City continues to maintain the golf courses, but a management firm oversees clubhouse operations; or (c) a private developer acquires the golf courses for private operation.

The City should also permit the existing employees at each of the golf courses to propose alternative management and employment structures as a way to minimize cost – this approach is commonly known as “managed competition.” If the City chooses to privatize operations, it should include a provision requiring the operator to pay a minimum annual rent – rather than a percentage of gross receipts or revenues. The lease or leases should also be structured so that they are for a limited time period with renewal options. The lease should also set maintenance standards and minimum capital investment requirements. It could also establish other minimum standards and regulate the fee structure.

2. If Brainerd and Brown Acres continue to be operated by the City, Parks Recreation Arts and Culture should change both the staffing and membership policy at both courses.

Staffing and membership discounts are the principal difference in operation of the city operated courses. PRAC full time staff at both courses should be reduced over time and there should be an increase in part time and seasonal staff. The City should continue to phase out memberships. In the interim, yearly membership fees should be reduced and discounted greens fees introduced.

3. The City and County should begin an RFP process for the operation of Moccasin Bend.

The City and County should begin a competitive process to determine the operator of the Moccasin Bend course upon completion of the existing lease with MBGC in October 31, 2005. The lease should be for a minimum of five years with options to renew. It should also provide for maintenance requirements and a review process that would be preformed by either the City or County. The City and County should require the operator to pay the City and County a set fee rather than a percentage of profits or gross receipts. By doing so, this will establish a stable source of revenue and avoid costs related to audit and compliance. The lease should also set forth minimum capital improvements requirements. The new lease should cover all aspects of golf course management.